

Annual
Financial
Report

June 30, 2002



**Graham County
Community College District**

Graham County
Community College District
(Eastern Arizona College)
Single Audit Reporting Package
June 30, 2002

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Single Audit Reporting Package
June 30, 2002**

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Graham County
Community College District
(Eastern Arizona College)
Financial Section
June 30, 2002



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Governing Board of
Graham County Community College District

We have audited the accompanying basic financial statements of Graham County Community College District as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Graham County Community College District as of June 30, 2002, and the changes in financial position and cash flows of the District for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 2, the District adopted the provisions of GASB Statement No. 35, *Basic Financial Statements- and Management's Discussion and Analysis- for Public Colleges and Universities*, as of June 30, 2002, to implement a new financial reporting model.

The Management's Discussion and Analysis on page 3 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards listed in the table of contents is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2003, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Debbie Davenport
Auditor General

February 28, 2003



Management's Discussion and Analysis

This discussion and analysis provides an overview of the District's financial activities for the year ended June 30, 2002. Please read it in conjunction with the financial statements, which immediately follow.

Basic Financial Statements:

Beginning with fiscal year 2001-02, the District is required to present annual financial statements in accordance with newly effective pronouncements issued by the Governmental Accounting Standards Board (GASB), the authoritative body for establishing Generally Accepted Accounting Principles (GAAP) for state and local governments, including public institutions of higher education. These new pronouncements permit public colleges and universities to use the guidance for special-purpose governments engaged in business-type activities in their separately issued financial statements. As such, the reader will observe that the presentation format has shifted from a columnar fund group format to a consolidated, single-column, entity-wide format, similar to the type of financial statements one might encounter from a typical business enterprise or a not-for-profit organization. The basic financial statements consist of the following:

The *Statement of Net Assets* reflects the financial position of the District at June 30, 2002. It shows the various assets owned, related liabilities and other obligations, and the various categories of net assets. Net assets is an accounting concept defined as total assets less total liabilities, and as such, represents institutional equity or ownership in the total assets of the District.

The *Statement of Revenues, Expenses, and Changes in Net Assets* reflects the results of operations and other changes for the year ended June 30, 2002. It shows the various revenues and expenses, both operating and nonoperating, reconciling the beginning net assets amount to the ending net assets amount, which is shown on the *Statement of Net Assets* described above.

The *Statement of Cash Flows* reflects the inflows and outflows of cash and cash equivalents for the year ended June 30, 2002. It shows the various cash activities by type, reconciling the beginning cash and cash equivalents amount to the ending cash and cash equivalents amount, which is shown on the *Statement of Net Assets* described above. In addition, this statement reconciles cash flows from operating activities to operating income/(loss) on the *Statement of Revenues, Expenses, and Changes in Net Assets* described above.

Financial Highlights and Analysis:

Consistent with its mission to provide open access to quality higher education, instruction is the primary function of the Graham County Community College District. Major funding sources supporting all functions include property taxes, state appropriations, and tuition and fees. The District exercises primary tax levy authority for generation of funds used for operating and capital equipment. Although total revenues have been increasing, in recent years the mix of funding sources has gradually been shifting. The District continues to act in a financially conservative manner during the budgetary process, looking to maintain a secure financial future for the institution while bracing for reduced State support. Steady but modest growth is anticipated for the District's future financial position.

While specific comparisons during the transition to a new reporting format will not be presented, a general discussion of current-year results in comparison with the prior year follows, with an emphasis on current-year activity.

During the past several years, audited financial reports showed prudent financial planning for District capital improvements with increasing cash balances sufficient to construct needed improvements without long-term or bonded debt. The self-supported construction of the Academic Programs Building project and the Student Services Building project (collectively the Middle Campus project) are the key reasons for a \$7 million decline in the District's cash balance for fiscal year 2001-02. However, the District's nondepreciable capital assets (construction in progress) significantly increased during the fiscal year due to the previously mentioned capital projects nearing completion.

Other significant changes include a decrease in investment income during the fiscal year due to a period of steadily eroding interest rates. The interest rate at the Arizona State Treasurer, where the majority of the District's investments are held, decreased two and a half points during fiscal year 2001-02. Other key sources of operating and nonoperating revenues remained fairly consistent between fiscal years.

Employee compensation and benefits expenses (recorded primarily as institutional support expenses) increased from the prior year as a result of greater employee longevity, a modest salary increase, and expanding educational programs. However, the District had a significant decrease in its compensated absences liability from the prior year that can be attributed to the retirement of several administrators after long tenure with the District. This retirement also contributed to increased institutional support expenses.

A decrease in operation and maintenance of plant expenses occurred due to the capitalization of maintenance department personnel expenses related to the construction of two new buildings on campus during the fiscal year (see Capital Assets and Debt Administration later in this discussion for further information on these construction projects).

Condensed Financial Information:

The District has elected not to restate the June 30, 2001, financial statements for purposes of providing comparative data for this year's Management's Discussion and Analysis (MD&A). However, in future years, when prior period information is available, comparative data will be presented.

The condensed financial information below highlights the main categories of the *Statement of Net Assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The current fiscal year shows an increase in net assets from the restated beginning balance of \$49,865,664 on July 1, 2001, to the ending balance of \$52,524,702 at June 30, 2002.

Statement of Net Assets
As of June 30, 2002

Assets:		
Current assets	\$19,765,107	
Noncurrent assets		
Capital assets, net	<u>34,518,561</u>	
Total assets		\$54,283,668
Liabilities:		
Current liabilities	\$ 1,328,695	
Noncurrent liabilities	<u>430,271</u>	
Total liabilities		<u>1,758,966</u>
Net Assets:		
Invested in capital assets	\$34,518,561	
Unrestricted net assets	<u>18,006,141</u>	
Total net assets		<u>\$52,524,702</u>

The condensed financial information below highlights the main categories of the *Statement of Revenues, Expenses, and Changes in Net Assets*. Operating revenues include tuition and fees, food service income, and dormitory rentals and fees, all of which are now presented net of scholarship discounts and allowances. In compliance with the new reporting pronouncements issued by the GASB, these allowances are now recorded as an offset to revenues, instead of as expenses. Depreciation expense is recorded for the first time this fiscal year, in accordance with the adoption of the full accrual basis of accounting. The construction and acquisition of capital assets, although budgeted and tracked in the accounting system, are not reflected as expenses in the financial statements. Rather, such transactions are reported as assets, with the systematic depreciation of the cost of those assets over their useful lives. The District shows an operating loss at June 30, 2002, reflective of the fact that two of the three main revenue sources, property taxes and state appropriations, are considered nonoperating revenues. For a description of the difference between operating and nonoperating revenues, please refer to the Summary of Significant Accounting Policies (Note 1).

***Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2002***

Operating revenues :		
Tuition and fees	\$ 1,959,240	
Government grants and contracts	6,362,961	
Other	<u>875,645</u>	
Total operating revenues		<u>9,197,846</u>
Operating expenses:		
Education and general	20,110,812	
Auxiliary enterprises	1,874,664	
Depreciation	<u>1,364,090</u>	
Total operating expenses		<u>23,349,566</u>
Operating loss		<u>(14,151,720)</u>
Nonoperating revenues:		
Property taxes	1,783,218	
State appropriations	13,160,300	
Other	<u>1,228,440</u>	
Total nonoperating revenues		<u>16,171,958</u>

Income before other revenues, expenses, gains or losses	<u>2,020,238</u>	
Capital appropriations	638,800	
Increase in net assets	2,659,038	
Net assets, July 1, 2001, as restated	<u>49,865,664</u>	
Net assets, June 30, 2002		<u>\$52,524,702</u>

Summary

Operating revenues	\$ 9,197,846	
Nonoperating revenues	16,171,958	
Capital appropriations	<u>638,800</u>	
Total revenues		<u>\$26,008,604</u>
Total expenses		<u>\$23,349,566</u>

Capital Assets and Debt Administration:

Fiscal year 2001-02 shows the continuation of a \$16,255,580 Capital Development Plan designed to increase available classroom and support space. The Middle Campus construction project, which will be completed next fiscal year, includes two new buildings. Both the Academic Programs facility and the Student Services facility will provide for current need and future growth. Funding for this Capital Development Plan came from District investments with no debt incurred.

As mentioned previously, equipment along with all other capital assets (except land and construction in progress) are reported net of accumulated depreciation for the first time this year in accordance with the new reporting standards issued by the GASB. This has the effect of reducing the value of total capital assets. Depreciation expense totaled \$1,364,090 for the year, and is now shown as an operating expense on the *Statement of Revenues, Expenses, and Changes in Net Assets*.

Additional information on the District's capital assets can be found in Note 4 to the basic financial statements.

Current Factors Having Probable Future Financial Significance:

At June 30, 2002, the District was unsuccessful in negotiating an educational services contract with Gila County. This will result in a loss of equipment and buildings at the Gila Pueblo campus sites in fiscal year 2002-03 and may affect future revenues and related expenses.

The financial support from the State continues to be a factor, and a reduction will occur in the District's fiscal year 2002-03 state funding.

Full-time tuition was increased by \$12 per semester and residence hall and dining plan costs were increased 3% for fiscal year 2002-03. As stated in the District's Mission Statement, providing access to quality higher education requires that tuition and related costs remain affordable, and modest increases result in partially offsetting the cumulative loss while keeping higher education affordable to residents of this small rural community.

**Graham County Community College District
(Eastern Arizona College)
Statement of Net Assets
June 30, 2002**

Assets

Current assets:

Cash and cash equivalents	\$19,012,457
Receivables (net of allowances for uncollectibles)	
Property taxes	232,016
Government grants and contracts	331,845
Student loans	13,457
Interest	88,190
Other	9,474
Inventories	<u>77,668</u>
Total current assets	<u>19,765,107</u>

Noncurrent assets:

Capital assets, not being depreciated	14,371,443
Capital assets, being depreciated, net	<u>20,147,118</u>
Total noncurrent assets	<u>34,518,561</u>

Total assets	<u>54,283,668</u>
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Liabilities

Current liabilities:

Accounts payable	707,755
Accrued payroll and employee benefits	168,566
Deposits held in custody for others	97,371
Current portion of compensated absences payable	328,309
Deferred revenues	<u>26,694</u>
Total current liabilities	<u>1,328,695</u>

Noncurrent liabilities:

Compensated absences payable	<u>430,271</u>
Total noncurrent liabilities	<u>430,271</u>

Total liabilities	<u>1,758,966</u>
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Net Assets

Invested in capital assets	34,518,561
Unrestricted	<u>18,006,141</u>
Total net assets	<u>\$52,524,702</u>

See accompanying notes to financial statements.

Graham County Community College District
(Eastern Arizona College)
Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2002

Operating revenues:

Tuition and fees (net of scholarship allowances of \$1,130,075)	\$ 1,959,240
Government grants and contracts	6,362,961
Private grants and contracts	18,158
Food service income (net of scholarship allowances of \$357,237)	249,301
Dormitory rentals and fees (net of scholarship allowances of \$245,698)	237,921
Other	370,265
Total operating revenues	<u>9,197,846</u>

Operating expenses:

Educational and general:	
Instruction	8,687,642
Academic support	507,542
Student services	2,678,862
Institutional support	3,816,305
Operation and maintenance of plant	2,144,959
Scholarships	2,275,502
Auxiliary enterprises	1,874,664
Depreciation	1,364,090
Total operating expenses	<u>23,349,566</u>
Operating loss	<u>(14,151,720)</u>

Nonoperating revenues:

Property taxes	1,783,218
State appropriations	13,160,300
Share of state sales taxes	438,357
Investment income	727,522
Gain on disposal of capital assets	62,561
Total nonoperating revenues	<u>16,171,958</u>

Income before other revenues, expenses, gains or losses	<u>2,020,238</u>
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Capital appropriations	638,800
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Increase in net assets	2,659,038
Total net assets, July 1, 2001, as restated	<u>49,865,664</u>
Total net assets, June 30, 2002	<u><u>\$ 52,524,702</u></u>

See accompanying notes to financial statements.

**Graham County Community College District
(Eastern Arizona College)
Statement of Cash Flows
Year Ended June 30, 2002**

Cash flows from operating activities:	
Tuition and fees	\$ 1,959,240
Government grants and contracts	6,378,421
Private grants and contracts	18,158
Food service receipts	249,301
Dormitory rentals and fees	237,921
Collection of loans issued to students	2,245
Other receipts	416,122
Payments to suppliers and providers of goods and services	(5,370,427)
Payments to employees	(14,450,896)
Payments to students	<u>(2,275,502)</u>
Net cash used for operating activities	<u>(12,835,417)</u>
 Cash flows from noncapital financing activities:	
Property taxes	1,820,047
State appropriations	13,160,300
Share of state sales taxes	438,357
Agency fund activity	<u>(3,323)</u>
Net cash provided by noncapital financing activities	<u>15,415,381</u>
 Cash flows from capital and related financing activities:	
Capital appropriations	638,800
Proceeds from sale of capital assets	188,511
Payments made to contractors	(11,176,491)
Purchases of capital assets	<u>(398,051)</u>
Net cash used for capital and related financing activities	<u>(10,747,231)</u>
 Cash flows from investing activities:	
Interest received on investments	<u>853,370</u>
Net cash provided by investing activities	<u>853,370</u>
 Net decrease in cash and cash equivalents	 (7,313,897)
 Cash and cash equivalents, July 1, 2001	 <u>26,326,354</u>
Cash and cash equivalents, June 30, 2002	<u>\$ 19,012,457</u>
	(Continued)

See accompanying notes to financial statements.

**Graham County Community College District
(Eastern Arizona College)
Statement of Cash Flows
Year Ended June 30, 2002**

**Reconciliation of operating loss to net cash
used for operating activities:**

Operating loss	(\$14,151,720)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	1,364,090
Changes in assets and liabilities:	
Increase in:	
Inventories	(5,101)
Accounts payable	37,651
Accrued payroll and employee benefits	44,540
Deferred revenues	3,228
Decrease in:	
Government grants and contracts receivable	12,232
Student loans receivable	2,245
Other receivables	45,857
Compensated absences payable	<u>(188,439)</u>
Net cash used for operating activities	<u><u>(\$12,835,417)</u></u>

Noncash capital activities:

During the year ended June 30, 2002, the District sold capital assets with a net book value of \$125,950 for \$188,511, resulting in a gain on disposal of \$62,561.

See accompanying notes to financial statements.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2002**

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Graham County Community College District conform to generally accepted accounting principles as applicable to public institutions engaged only in business-type activities adopted by the Governmental Accounting Standards Board (GASB). During the year ended June 30, 2002, the District implemented GASB Statement No. 35, which prescribes a new reporting model for public colleges within the reporting guidelines of GASB Statement No. 34, as amended by GASB Statement No. 37. The District also implemented GASB Statement No. 38, which prescribes new and revised note disclosures.

A. Reporting Entity

The District is a special-purpose government that is governed by a separately elected governing body. It is legally separate and fiscally independent of other state and local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity.

The financial activities of the Eastern Arizona College Foundation are not included in the District's financial statements. The Foundation is a nonprofit corporation controlled by a separate board of directors. The Foundation's goals are to promote educational programs and District objectives.

B. Basis of Presentation and Accounting

The financial statements include a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows.

A statement of net assets provides information about the assets, liabilities and net assets of the District at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external donor restrictions or availability of assets to satisfy District obligations. Invested in capital assets net of related debt represents the net value of capital assets less the debt incurred to acquire or construct the asset. Nonexpendable restricted net assets are gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable restricted net assets represent grants, contracts, gifts, and other resources that have been externally restricted for specific purposes. Unrestricted net assets include all other net assets, including those that have been designated by management to be used for other than general operating purposes.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2002**

A statement of revenues, expenses, and changes in net assets provides information about the District's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported, including capital contributions. Generally, revenues generated by the District for instruction and student services are considered to be operating revenues. Other revenues used for instruction and student services, such as property taxes and state appropriations, are not generated from operations and are considered to be nonoperating revenues.

A statement of cash flows provides information about the District's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as either operating, noncapital financing, capital financing, or investing.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized in the year for which they are levied. State appropriations are recognized as revenue in the year in which the appropriation is first made available for use. Grants and donations are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District eliminates all internal activity. It is the District's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The District follows FASB Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

C. Cash and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the County Treasurer, and investments in the State Treasurer's Local Government Investment Pool. All investments are stated at fair value.

D. Inventories

All inventories are stated at the lower of cost (first-in, first-out method) or market.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2002**

E. Capital Assets

Capital assets of the District consist of land, buildings, improvements other than buildings, construction in progress, equipment, and library materials. Capital assets are stated at cost at date of acquisition, or fair market value at date of donation in the case of gifts. Major outlays for assets or improvements to assets are capitalized as projects are constructed. These are categorized as construction in progress until completed, at which time they are reclassified to the appropriate asset type.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the financial statements are as follows:

Asset Category	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	\$1	Not applicable	Not applicable
Buildings, Brick & Mortar	\$5,000	Straight-line	40 years
Buildings, Temporary/Modular	\$5,000	Straight-line	20 years
Improvements other than Buildings	\$5,000	Straight-line	15 years
Construction in Progress	\$5,000	Not applicable	Not applicable
Equipment	\$5,000	Straight-line	5 years
Library Materials	\$1	Straight-line	10 years

F. Investment Income

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments.

G. Compensated Absences

Compensated absences consist of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered.

Employees may earn and accumulate vacation days according to their employment position and years of service. Vacation days earned per month range from .83 to 1.83 with a maximum accumulation ranging between 20 and 44 days. Vacation days in excess of the maximums are forfeited at the end of each month during the fiscal year.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2002**

Generally, sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees. Therefore, a liability for sick leave benefits is not accrued in the financial statements. However, for employees who have met the sick leave vesting requirements under the District option plan, sick leave benefits do vest. The option provides payment to retiring employees up to the maximum of 100 days of accrued sick days multiplied by the employee's daily rate for employees who have at least 15 years of service and qualify for normal retirement, disability, or death benefit. Those amounts are accrued as a liability in the financial statements.

H. Scholarship Allowances

A scholarship allowance is the difference between the stated charge for goods and services provided by the District and the amount that is paid by the student or third parties making payments on behalf of the student. Accordingly, some types of student financial aid such as Pell grants and scholarships awarded by the District are considered to be scholarship allowances. These allowances are netted against tuition and fees, food service income, and dormitory rentals and fees in the statement of revenues, expenses, and changes in net assets.

I. Property Tax Revenues

The Graham County Treasurer is responsible for collecting property taxes for all governmental entities within the County. The County levies the property taxes due to the District in August. Two equal installments, payable in October and March, become delinquent after the first business day in November and May. A lien assessed against real and personal property attaches on the first day of January preceding the assessment and levy.

Note 2 – Beginning Balances Restated

As a result of implementing GASB Statement No. 35 and a prior period adjustment, the District's aggregate fund balances reported as of June 30, 2001, totaling \$65,030,930, have been restated as beginning net assets of \$49,865,664. Of the difference, \$15,218,052 is attributable to recording accumulated depreciation on capital assets, and \$52,786 is attributable to a prior period adjustment reducing deferred revenue.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2002**

Note 3 – Deposits and Investments

Arizona Revised Statutes (A.R.S.) requires the District to deposit special tax levies for the District's maintenance or capital outlay with the County Treasurer. Although not statutorily required, the District has also chosen to deposit other public monies in its custody with the County Treasurer.

Deposits—The District's deposits totaling \$ 5,633 at June 30, 2002, were entirely covered by federal depository insurance or by collateral held by the District's custodial bank in the District's name.

Investments—At June 30, 2002, the District's investments consisted of the following:

	<u>Fair Value</u>
Cash and investments held by the County Treasurer	\$ 7,977
Investments in State Treasurer's investment pool	<u>18,998,847</u>
Total	<u>\$19,006,824</u>

The District's investment in the State or County Treasurer's investment pools represents a proportionate interest in those pools' portfolios; however, the District's portion is not identified with specific investments and is not subject to custodial credit risk.

The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. No comparable oversight is provided for the County Treasurer's investment pool, and that pool's structure does not provide for shares.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2002**

Note 4 – Capital Assets

Capital asset activity for the year ended June 30, 2002, was as follows:

	Balance July 1, 2001, as restated	Increases	Decreases	Balance June 30, 2002
Capital assets not being depreciated:				
Land	\$ 2,284,405	\$ 0	\$ 0	\$ 2,284,405
Construction in progress	1,199,043	10,887,995	0	12,087,038
Total capital assets not being depreciated	<u>3,483,448</u>	<u>10,887,995</u>	<u>0</u>	<u>14,371,443</u>
Capital assets being depreciated:				
Buildings and improvements	30,514,987	288,496	(477,562)	30,325,921
Equipment	4,849,388	335,823	(473,358)	4,711,853
Library materials	804,288	62,228	(54,815)	811,701
Total capital assets being depreciated	<u>36,168,663</u>	<u>686,547</u>	<u>(1,005,735)</u>	<u>35,849,475</u>
Less accumulated depreciation for:				
Buildings and improvements	10,594,201	912,761	(406,608)	11,100,354
Equipment	3,974,441	397,640	(473,177)	3,898,904
Library materials	649,410	53,689	0	703,099
Total accumulated depreciation	<u>15,218,052</u>	<u>1,364,090</u>	<u>(879,785)</u>	<u>15,702,357</u>
Total capital assets being depreciated, net	<u>20,950,611</u>	<u>(677,543)</u>	<u>(125,950)</u>	<u>20,147,118</u>
Capital assets, net	<u>\$24,434,059</u>	<u>\$10,210,452</u>	<u>\$(125,950)</u>	<u>\$34,518,561</u>

Note 5 – Long-Term Liabilities

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2002.

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Due within one year
Compensated absences payable	<u>\$947,019</u>	<u>\$323,944</u>	<u>\$512,383</u>	<u>\$758,580</u>	<u>\$328,309</u>

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2002**

Note 6 – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for all such risks of loss, including workers' compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 7 – Construction Commitments

The District has entered into contracts for the following construction project:

<u>Project</u>	<u>Project Authorizations</u>	<u>Expended to Date</u>	<u>Estimated Cost to Complete</u>	<u>Required Future Financing</u>
Middle Campus	\$16,255,580	\$12,087,038	\$4,168,542	None

Note 8 – Retirement Plan

Plan Description—The District contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the Arizona State Retirement System, 3300 North Central Avenue, PO Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy—The Arizona State Legislature establishes and may amend active plan members' and the District's contribution rates. For the year ended June 30, 2002, active plan members and the District were each required by statute to contribute at the actuarially determined rate of 2.49 percent (2.00 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The District's contributions to the System for the years ended June 30, 2002, 2001, and 2000 were \$258,213, \$249,715, and \$236,676, respectively, which were equal to the required contributions for the year.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Financial Statements
June 30, 2002**

Note 9 – Operating Expenses

The District's operating expenses are presented by functional classification in the Statement of Revenues, Expenses, and Changes in Net Assets. The operating expenses can also be classified into the following:

Salaries and benefits	\$14,086,627
Contract services	1,131,963
Supplies and other services	2,710,201
Communications and utilities	1,040,686
Scholarships	2,275,502
Depreciation	1,364,090
Other	<u>740,497</u>
Total	<u>\$23,349,566</u>

Note 10 – Subsequent Events

Recent Investment Losses in the State Treasurer's Local Government Investment Pool
Pursuant to statutory authority, a portion of the District's monies are invested in the State Treasurer's Local Government Investment Pool (LGIP), which was established in 1980 for the collective investment of State and local government monies. Monies in the LGIP may be invested in various types of investments prescribed by law, including bonds, debentures, or other evidences of indebtedness that are issued by entities organized and doing business in the United States that have a minimum rating of "Baa" from Moody's Investors Service or "BBB" from Standard & Poors Rating Service. In December 2002, the State Treasurer announced that the LGIP currently holds approximately \$131 million of asset-backed securities issued by an NPF-12 trust that are serviced by National Century Financial Enterprises (NCFE). Recently, NCFE has come under investigation by the Federal Bureau of Investigation, the Securities and Exchange Commission, and various state authorities for possible fraud and violations of federal and state laws. NCFE has since declared bankruptcy and the trustee for the bonds has informed the State Treasurer that the interest payment due December 1, 2002, was not received. As of December 2002, the District's share of the potential investment loss was \$635,794 of cash equivalents maintained in the State Treasurer's LGIP.

Supplementary Information

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2002**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Small Business Administration			
Passed through the Maricopa County Community College District			
Small Business Development Center	59.037	None	<u>\$ 67,586</u>
U.S. Department of Education			
Student Financial Assistance Cluster			
Federal Supplemental Educational Opportunity Grants			
	84.007		103,578
Federal Work-Study Program	84.033		236,079
Federal Pell Grant Program	84.063		<u>2,716,935</u>
Total Student Financial Assistance Cluster			<u>3,056,592</u>
TRIO— Student Support Services	84.042		182,434
Passed through the Arizona Department of Education			
Adult Education—State Grant Program	84.002	02-FAE-ABE- 270551-02A	12,351
Passed through the State Board of Directors for Community Colleges			
Vocational Education—Basic Grants to States	84.048	30203	168,639
Passed through the Arizona Board of Regents			
Leveraging Educational Assistance Partnership			
	84.069	None	<u>11,134</u>
Total U.S. Department of Education			<u>3,431,150</u>
Total Expenditures of Federal Awards			<u><u>\$3,498,736</u></u>

See accompanying notes to schedule.

**GRAHAM COUNTY COMMUNITY COLLEGE DISTRICT
(EASTERN ARIZONA COLLEGE)
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2002**

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Graham County Community College District and is presented on the full accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2 - Catalog of Federal Domestic Assistance (CFDA) Numbers

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2002 *Catalog of Federal Domestic Assistance*.

Note 3 - Subrecipients

The District did not pass-through any federal awards to subrecipients.

**Graham County
Community College District**
(Eastern Arizona College)
Single Audit Section
June 30, 2002



**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Basic Financial Statements
Performed in Accordance with *Government Auditing Standards***

Members of the Arizona State Legislature

The Governing Board of
Graham County Community College District

We have audited the basic financial statements of Graham County Community College District as of and for the year ended June 30, 2002, and have issued our report thereon dated February 28, 2003, which was modified as to consistency because of the implementation of GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all such internal control matters that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Governing Board, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Debbie Davenport
Auditor General

February 28, 2003



**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133**

Members of the Arizona State Legislature

The Governing Board of
Graham County Community College District

Compliance

We have audited the compliance of Graham County Community College District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program cluster for the year ended June 30, 2002. The District's major federal program cluster is identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, Graham County Community College District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program cluster for the year ended June 30, 2002.

Internal Control over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of internal control over compliance would not necessarily disclose all such internal control matters that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Governing Board, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Debbie Davenport
Auditor General

February 28, 2003

Graham County Community College District
(Eastern Arizona College)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2002

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:		Unqualified	
		Yes	No
Material weakness identified in internal control over financial reporting?	—		<u>X</u>
Reportable condition identified not considered to be a material weakness?	—		<u>X</u> (None reported)
Noncompliance material to the financial statements noted?	—		<u>X</u>

Federal Awards

Material weakness identified in internal control over major programs?	—		<u>X</u>
Reportable condition identified not considered to be a material weakness?	—		<u>X</u> (None reported)

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	—		<u>X</u>
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Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
	Student Financial Assistance Cluster of Programs:
84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?	<u>X</u>		—
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Other Matters

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	—		<u>X</u>
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